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Auction: A New Way of Fruit and Vegetable Trading in South China

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Approved by:

Samuel Wong

U.S. Consulate General, Guangzhou

Prepared by:

Lynda Jiang

Report Highlights:

The Shenzhen Futian Agricultural Products Wholesale Market is the first auction center for fruit and vegetable trading in China. Besides spot auction, the Market plans to utilize on line trading in the near future. If US exporters want to export their fruits to China but worry about defaults, the Shenzhen Market might minimize their risk.

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Auction: A New Way of Fruit & Vegetable Trading in South China

Background

The Shenzhen Futian Agricultural Products Wholesale Market Co. was established in May 1992. Its four major shareholders are Shenzhen Agricultural Products Co., Shenzhen GuangYe Investment Co., Shenzhen State-owned Duty Free Goods Co. and Shenzhen Foreign Economic Trade Investment Company with investment ratios of 52.3%, 20.7%, 18% and 9%, respectively. All the shareholders are State-owned enterprises.

The Market started its official auction business on June 28, 1997 and was the first auction center for fruit and vegetable trading in China. Since then, the Market had gone through many reforms and adopted better ways of trading to meet the demand of its customers. Based on its performance, the Market had been nominated as one of the Five Dragon-head Enterprises (i.e., leading businesses) for fruit and vegetable industry by the Guangdong Government.

Findings

1. The Shenzhen Futian Agricultural Products Wholesale Market began the auction apparently on time. Upon the arrival of ATO/GZ staff shortly after 9:30 pm (evening) on Oct. 23, the auction had already started. A crowd of people gathered together around piles of packaged fresh vegetables and different bidders shouted out their offers. The people were dressed in different color shirts to differentiate themselves as bidders, auction personnel and couriers. The auctioneers are employees of the Market and are trained to hold such auctions.
2. Besides spot auctions (the products are on the spot in the market), the Market also handles paper auctions for reliable suppliers whose quality products are widely recognized. The auctioneers use computer generated information as the basis for auction. On the computer types, the sellers state their products (what they are), the quantity and the selling price. Since those products are brand-named and usually will meet the stated grade and standard (and with the guarantee of the Market), the buyers don't mind buying the products without seeing them on spot. With paper auction, the buyers also have the flexibility to ask the suppliers deliver the products to the places preferred by the buyers.
3. After the auction, the buyers make payment at the Settlement Center in the Market. Unlike some other wholesale markets at which buyers usually pay by cash, this Market uses ordinary banking system to transfer payments between accounts for its customers. The Market charges a service fee of 4% for the total sale to the suppliers. Currently, the buyers do not pay a fee for buying through this auction market.
4. The buyers usually take the products from the Market and tranship them to their next buyers, such as the second-level wholesalers or retailers. They can also sell them at the open market on the second floor of the Market the next morning, by paying a fee.
5. According to the management of the Market, they have very strict rules on pesticide residue testing. If the products do not pass the tests, they would be destroyed in the Market. The

supplier is not allowed to take them out of the Market. This is to make the suppliers serious about their residue control and minimize extra cost for both the Market and the suppliers. In order for the growers to understand better the pesticide residue requirements, the Market sends trained pesticide control examiners to different vegetable fields regularly to check the growing and harvesting conditions. It also sends certified examiners to work with the growers to regulate the use of pesticide on the plants.

6. The Market is equipped with the latest residual testing equipment (from Germany, cost about US\$240,000). The equipment is mainly used to test products for exports to foreign countries. Since each country has its specific requirements, the technicians at the Market would use the equipment to test the product samples accordingly.

7. Concurrently, the staff of the Shenzhen Quality Control and Inspection Department are also stationed at the Market to inspect the products. They are planning to set up a Customs Clearance Station at the Market for export products. The staff of the Shenzhen Quality Control and Inspection Department will work together with the technicians of the Market to test the products. This will eliminate the double testing process and save time for the Customs Clearance.

8. The Market is trying to improve its services to its customers. It is planning to set up an on-line trading system. In this way, its customers, both suppliers and buyers, do not need to come to the Market. They can log into the trading session of the Market's website, bid and make deals on real time. Based on the success of its "Paper Auction", the management strongly believes that on-line trading would be a success for the Market in the near future.

9. Currently, a majority of the auctioned products in the Market are vegetables. To enlarge its business scope, the Market is looking for business partners, especially fruit exporters from foreign countries, to provide steady supplies. It is interested in acting as a general agent for large fruit growers of foreign countries.

10. The ATO staff visited the Market on October 23-24, 2002 and had extensive discussion with its management team on the operation of the Market. The visit was a follow up of the Market's representatives' calling on the Agricultural Trade Office earlier in October.

Recommendation

1. Since the Market acts as an intermediary for both buyers and sellers, sellers are guaranteed to be paid before the goods are released. No payment, no delivery. US exporters could take advantage of this paying system by selling their products in the Market and getting paid through the Market's settlement arrangement. When US exporters are new to the China market, some form of payment guarantee would be desirable for their new business in China.

2. The Market is an information center. It has over 100 steady suppliers and about 150 buyers. US exporters might use the Market to find suitable buyers and partners.

3. "Transparency, Fairness, Justice" is the stated principle of the Market. However, if the Market wants to become a general agent for foreign suppliers, it might be in a situation of

conflict of interests. It would be difficult for it to act as an impartial auction center for the products. The buyers would doubt about the Market's transparency, fairness and justice. US exporters need to ask the Market management to explain more fully how they ensure transparency, fairness, or justice. When there are disputes, how would they be resolved?

4. As the first and the largest auction center for fruit and vegetables in China, the Market has been quite successful in managing the products, the settlement accounts and the relationship between buyers and sellers. The Market plans to utilize the latest technology to set up on-line trading for its customers. On-line trading would be very convenient for foreign exporters to sell their products. And with the Market acting as the middle man, foreign exporters might find it less risky doing business through the Market than dealing directly with some uninsured importers. US exporters might begin establishing their credibility with the Market and work to gain product recognition in the Market for them to engage in on-line trading later. They may need to invest in some on-the-spot trading initially. For contact information, please email to ATO/Guangzhou: info@atoguangzhou.org.